

# **Montague Fire District**

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## **Financial Statements and Required Supplemental Information** For the Years Ended June 30, 2008 and 2007

# Montague Fire District

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## Independent Auditors' Report

To the Board of Trustees  
Montague Fire District  
Montague, Michigan

We have audited the financial statements of the Montague Fire District as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Montague Fire District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montague Fire District as of June 30, 2008 and 2007 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

*Pridnia Lapres, PLLC*

December 12, 2008

## **Montague Fire District**

### **Management's Discussion and Analysis**

This section of the Montague Fire District's ("District") annual financial report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2008. Please read it in conjunction with the District's financial statements, which immediately follow this section.

#### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Montague Fire District financially as a whole. The basic financial statements are comprised of the following elements:

#### **Management's Discussion and Analysis (MD&A)**

(Required Supplemental Information)

#### **Basic Financial Statements**

Financial Statements

Statements of Net Assets

Statements of Revenues, Expenses, and Changes in Net Assets

Statements of Cash Flows

Notes to Financial Statements

The Statement of Net Assets provides balances as of the end of the current and prior reporting periods. The Statement of Revenues, Expenses, and Changes in Net Assets provides information related to the activities of the District during the current and prior year. The Statement of Cash Flows presents detailed information about the District's cash collections and disbursements.

#### **Financial Overview**

Recall that the Statement of Net Assets provides the perspective of the District as a whole. The following table provides District's net assets as of June 30, 2008 and 2007.

<b>Statements of Net Assets</b>		
<b><i>June 30,</i></b>	<b><i>2007</i></b>	<b><i>2008</i></b>
<b><u>Assets</u></b>		
Current and other assets	\$155,863	\$222,246
Capital assets	571,489	535,743
Total Assets	727,352	757,989
<b><u>Liabilities</u></b>		
Current Liabilities	18,484	19,038
<b><u>Net Assets</u></b>		
Invested in capital assets - net of related debt	571,489	535,742
Reserved	69,961	108,145
Unrestricted	67,418	95,064
Total Net Assets	\$708,868	\$738,951

## **Montague Fire District**

## Management's Discussion and Analysis

The above analysis focuses on the net assets. The Authority's net assets were \$738,951 June 30, 2008 compared to \$708,868 at June 30, 2007. Capital assets, net of related debt totaled \$535,743, which is a decrease of \$35,746 from the prior year. Of the remaining amount of net assets, a total of \$108,145 was reserved for replacement and \$95,064 was unreserved.

The \$95,064 in unreserved net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net asset balance is used to provide working capital and cash flow requirements as well as providing for future uncertainties.

The results of this year's operations for the District are reported in the Statements of Revenues, Expenses, and Changes in Net Assets, which shows the changes in net assets for the years ended June 30, 2008 and 2007.

<b>Statements of Revenues, Expenses, and Changes in Net Assets</b>		
<b><i>Year ended June 30,</i></b>	<b>2007</b>	<b>2008</b>
Operating revenues – charges for services	\$ 145,570	\$ 162,698
Operating expenses		
Salaries and fringe benefits	73,284	71,834
Office expenses	2,974	1,482
Repairs and maintenance	9,088	10,155
Small tools	7,900	3,978
Uniforms	-	3,223
Fuel	2,425	2,587
Professional services	6,264	1,982
Supplies	-	5,639
Telephone	6,474	6,134
Insurance	14,720	18,895
Utilities	4,175	4,534
Equipment rental	1,200	1,200
Education and training	1,996	2,047
Long-term planning	-	16,328
Depreciation	33,140	35,746
Other	3,451	8,119
	<u>167,091</u>	<u>193,883</u>
Operating loss	(21,521)	(31,185)
Non-operating revenues (expenses)		
Investment earnings	8,825	7,156
Other income	5,204	5,112
Loss on sale of fixed assets	(16,230)	-
Contributions from other governmental units	48,000	49,000
	<u>45,799</u>	<u>61,268</u>
Change in net assets	24,278	30,083
Net Assets, at beginning of year	684,590	708,868
Net Assets, at end of year	<u>\$ 708,868</u>	<u>\$738,951</u>

**Montague Fire District**

**Management's Discussion and Analysis**

**Capital Assets**

At June 30, 2008, the Authority had \$535,743 (after accumulated depreciation) invested in a broad range of capital assets, including land, building improvements and fire equipment.

<b><u>June 30,</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>
Land	\$ 48,727	\$ 48,727
Building improvements	4,297	4,297
Vehicles and equipment	671,217	617,217
Total capital assets	724,241	724,241
Accumulated depreciation	152,752	188,498
Total capital assets, net	\$571,489	\$535,743

**Economic Factors**

As of June 20, 2006, the Montague Fire District became its own separate entity, filing Articles of Incorporation pursuant to the provisions of Act 57, Public Acts of Michigan, 1988 as amended. As such, the Montague Fire District is now considered an Authority and is responsible for handling their own funds. Changes have been made to the way business is handled. Most of these changes are spelled out in the Articles of Incorporation that have been approved by all three organizing units of government.

**Contacting the Authority Financial Management**

This financial report is designed to provide a general overview of the District's finances for all those interested in the District. If you have any questions about this report or need additional information, contact the Montague Fire District at 8778 Ferry St., Montague, MI 49437.

# Montague Fire District

## Statements of Net Assets

<i>June 30,</i>	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 2)	<b>\$ 207,446</b>	\$ 137,871
Due from other governmental units	<b>4,125</b>	3,250
Prepaid items	<b>10,675</b>	14,742
Total Current Assets	<b>222,246</b>	155,863
<b>Non-Current Assets</b>		
Capital assets		
Land	<b>48,727</b>	48,727
Building improvements	<b>4,297</b>	4,297
Vehicles and equipment	<b>671,217</b>	671,217
Less accumulated depreciation	<b>(188,498)</b>	(152,752)
Net Capital Assets	<b>535,743</b>	571,489
Total Assets	<b>757,989</b>	727,352
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	<b>4,051</b>	1,049
Accrued liabilities	<b>14,987</b>	17,435
Total Liabilities	<b>19,038</b>	18,484
<b>Net Assets</b>		
Invested in capital assets	<b>535,742</b>	571,489
Reserved for replacement	<b>108,145</b>	69,961
Unreserved	<b>95,064</b>	67,418
<b>Total Net Assets</b>	<b>\$ 738,951</b>	\$ 708,868

*See accompanying notes to financial statements.*

# Montague Fire District

## Statements of Revenues, Expenses, and Changes in Net Assets

<i>Years ended June 30,</i>	<b>2008</b>	<b>2007</b>
<b>Operating Revenues</b>		
Charges for services	\$ 162,698	\$ 145,570
<b>Operating Expenses</b>		
Salaries and fringe benefits	71,834	73,284
Office expenses	1,482	2,974
Repairs and maintenance	10,155	9,088
Small tools	3,978	7,900
Uniforms	3,223	-
Fuel	2,587	2,425
Professional services	1,982	6,264
Supplies	5,639	-
Telephone	6,134	6,474
Insurance	18,895	14,720
Utilities	4,534	4,175
Equipment rental	1,200	1,200
Education and training	2,047	1,996
Long-term planning	16,328	-
Depreciation	35,746	33,140
Other	8,119	3,451
<b>Total Operating Expenses</b>	<b>193,883</b>	<b>167,091</b>
<b>Operating Loss</b>	<b>(31,185)</b>	<b>(21,521)</b>
<b>Non-Operating Revenue (Expense)</b>		
Investment earnings	7,156	8,825
Other income	5,112	5,204
Loss on sale of fixed assets	-	(16,230)
Contributions from other governmental units	49,000	48,000
<b>Total Non-Operating Revenue</b>	<b>61,268</b>	<b>45,799</b>
<b>Change in Net Assets</b>	<b>30,083</b>	<b>24,278</b>
<b>Net Assets – Beginning of year</b>	<b>708,868</b>	<b>684,590</b>
<b>Net Assets – End of year</b>	<b>\$ 738,951</b>	<b>\$ 708,868</b>

*See accompanying notes to financial statements.*



# Montague Fire District

## Statements of Cash Flows

<i>Years ended June 30,</i>	<b>2008</b>	<b>2007</b>
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	\$ 161,823	\$ 142,320
Payments to suppliers	(79,234)	(72,610)
Payments to employees	(74,282)	(82,800)
Net Cash Provided by (Used for) Operating Activities	<b>8,307</b>	(13,090)
<b>Cash Flows from Capital and Related Financing Activities</b>		
Other income	5,112	5,204
Purchases of capital assets	-	(178,626)
Proceeds from sale of capital assets	-	3,500
Contributions from other governmental units	49,000	48,000
Net Cash Provided by (Used for) Capital and Related Financing Activities	<b>54,112</b>	(121,922)
<b>Cash Flows from Investing Activities</b>		
Investment income	7,156	8,825
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>69,575</b>	(126,187)
<b>Cash and Cash Equivalents, Beginning of year</b>	<b>137,871</b>	264,058
<b>Cash and Cash Equivalents, End of year</b>	<b>\$ 207,446</b>	\$ 137,871
Reconciliation of operating loss to net cash provided by (used for) operating activities		
Operating loss	\$ (31,185)	\$ (21,521)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:		
Depreciation	35,746	33,140
Changes in assets and liabilities:		
Due from other governmental units	(875)	(3,250)
Prepaid items	4,067	(11,275)
Accounts payable	3,002	60
Accrued liabilities	(2,448)	(10,244)
Net Cash Provided by (Used for) Operating Activities	<b>\$ 8,307</b>	\$ (13,090)

*See accompanying notes to financial statements.*

# Montague Fire District

## Notes to Financial Statements

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### 1. Summary of Significant Accounting Policies

The financial statements of the Montague Fire District (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance, subject to the same limitation. The District has elected not to follow subsequent private-sector guidance. The more significant of the District's accounting policies are described below.

#### Reporting Entity

The Montague Fire District was incorporated on June 20, 2006, pursuant to the provisions of Act 57, Public Acts of Michigan, as amended, for the purpose of the creating, establishing and incorporating an emergency services authority for citizens of its constituent municipalities: the City of Montague, the Townships of Montague and White River.

Each of the municipalities participating in the District share the cost of operating and financing it. Operating and administrative cost shares are allocated to the municipalities in proportion to their respective populations, state equalized values and historical usage.

#### Basis of Accounting

Financial activities of the District are accounted for using the accrual basis of accounting.

# Montague Fire District

## Notes to Financial Statements

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### **Assets, Liabilities and Net Assets or Equity**

#### Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this Standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The Standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity.

The District has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the District to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

#### Capital Assets

Capital Assets, which include plant and equipment are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

# Montague Fire District

## Notes to Financial Statements

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building improvements	40
Vehicles and equipment	5-20

### 2. Deposits and Investments

#### *Deposits*

##### Custodial Credit Risk Related to Deposits

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business. At June 30, 2008 and 2007, the bank balance of the District's deposits was \$210,324 and \$143,133, respectively, of which \$100,000 is covered by federal depository insurance, \$110,324 and \$43,133, respectively, is uninsured and uncollateralized.

#### *Investments*

##### Interest Rate Risk

The District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

# Montague Fire District

## Notes to Financial Statements

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### Custodial Credit Risk Related to Investments

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities listed in the District's investment policy, pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business. The District has no investments as of June 30, 2008 and 2007.

### Concentration of Credit Risk

The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential loss from any one type of security or issuer will be minimized.

### Credit Risk

State statutes authorize the District to invest in obligations and certain repurchase agreements of the U.S. Treasury and related governmental agencies, commercial paper rated prime at the time of purchase, bankers acceptances and certificates of deposit issued or created by any state or national bank insured with the applicable federal agency, investment pools authorized by the Surplus Funds Investment Pool Act and mutual funds composed entirely of the above investments. The District's investment policy does not further limits its investment choices.

### Foreign Currency Risk

The District is not authorized to invest in investments which have this type of risk.

# Montague Fire District

## Notes to Financial Statements

- 3. Capital Assets** Capital asset activity for the years ended June 30, 2008 and 2007 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
<b>Capital assets, not being depreciated</b>				
Land	\$ 48,727	\$ -	\$ -	\$ 48,727
<b>Capital assets, being depreciated</b>				
Building improvements	4,297	-	-	4,297
Vehicles and equipment	671,217	-	-	671,217
Total capital assets, being depreciated	675,514	-	-	675,514
<b>Less accumulated depreciation for</b>				
Building improvements	2,900	107	-	3,007
Vehicles and equipment	149,852	35,639	-	185,491
Total accumulated depreciated	152,752	35,746	-	188,498
<b>Capital Assets, Net</b>	<b>\$571,489</b>	<b>\$ (35,746)</b>	<b>\$ -</b>	<b>\$ 535,743</b>

- 4. Related Party Transactions** The District paid an administrative fee to the City of Montague, a participating governmental unit, for allocated City employee wages and fringe benefits. The fee incurred for the year ended June 30, 2007 was \$1,500.

- 5. Risk Management** The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There have been no losses in excess of insurance coverage in the current year.

Board of Trustees  
Montague Fire District

December 12, 2008

In planning and performing our audit of the financial statements of the Montague Fire District, (the District) as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a significant deficiency.

The American Institute of Certified Public Accountants (AICPA) has issued Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*. This statement requires the independent auditor to perform additional procedures that are intended to reduce the risk that material fraud may go undetected. You should be aware that, while these additional procedures may reduce the risk of material undetected fraud, they do not eliminate risk. It is management's responsibility to design and implement programs and controls to prevent, deter and detect fraud. During our audit of the District, we noted that there was no documented fraud prevention policy in place.

This communication is intended solely for the information and use of the Board of Trustees and management of the Montague Fire District and is not intended to be, and should not be, used by anyone other than these specified parties.

*Prudna Lathes, LLC*



Board of Trustees  
Montague Fire District  
8660 Water Street  
Montague, Michigan 49437

December 12, 2008

Dear Board of Trustees:

Professional standards require us to advise you of the following matters relating to our recently completed audit of the Montague Fire District (the "District") as of and for the year ended June 30, 2008. The matters discussed herein are those that we have noted as of December 12, 2008 and we have not updated our procedures regarding these matters since that date to the current date.

### **Our Responsibility under Generally Accepted Auditing Standards**

As stated in our engagement letter dated May 19, 2008, our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. An audit in accordance with generally accepted auditing standards does not provide absolute assurance or guarantee the accuracy of the financial statements and is subject to the inherent risk that errors or fraud, if they exist, have not been detected. Such standards also require that we obtain a sufficient understanding of the District's internal control to plan the audit. However, such understanding is required for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

### **Overview of Planned Scope and Timing of the Audit**

A discussion was held with the Executive Secretary/Treasurer on June 24, 2008 regarding the planned scope and timing of the audit, the intention of which was to assist those charged with governance in understanding better the consequences of our audit work on your oversight responsibilities along with assisting us in understanding better the District and its environment. The focus of this discussion included how the risks of material misstatement, whether due to error or fraud, would be addressed and on factors, rather than specific thresholds or amounts, that would impact materiality used in our planning and execution of the audit.

## **Significant Findings from the Audit**

### ***Management Judgments and Accounting Estimates***

Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. We have made tests of management's estimates and deemed them to be appropriate.

There were no material contingencies, as defined in FASB Statement No. 5, for which we had questions or concerns about the reasonableness of the accounting or the adequacy of the financial statement disclosure.

### ***Misstatements***

Professional standards require the auditor to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Additionally, we are required to communicate with those charged with governance uncorrected misstatements and the effect that they may have on the opinion in the auditor's report, and request their correction.

During our audit, no material corrected misstatements or unrecorded misstatements were brought to the attention of management by us.

### ***Discussion about the Quality of Significant Accounting Practices***

In accordance with applicable auditing standards, a discussion was held with on June 24, 2008 regarding the quality of the District's significant accounting practices, which included the District's significant accounting practices, estimates, and financial statement disclosures.

### ***Adoption of a Change in Accounting Principle***

There were no situations involving the adoption of or a change in accounting principles where the application of alternative generally accepted accounting principles, including alternative methods of applying an accounting principle, would have a material effect on the District's financial statements.

***Disagreements with Management***

Professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the District's financial statements or the audit report. No such disagreements arose during the course of our audit.

***Consultation with Other Accountants***

There may be circumstances where the District considers consulting with other accountants about accounting and auditing matters. We are not aware of any consultations about accounting or auditing matters between management and other accountants. We are also not aware of opinions obtained by management from other accountants on the application of generally accepted accounting principles.

***Significant Issues Discussed with Management Prior to Our Retention***

Prior to our being retained as auditor for the current fiscal year, there were no significant accounting or other issues of concern discussed with management.

***Material Alternative Accounting Treatments Discussed with Management***

During the past year, there were no discussions with management concerning material alternative accounting treatments.

***Significant Difficulties Encountered in Performing the Audit***

There were no significant difficulties encountered during the course of the audit. All records and information requested by Pridnia LaPres, PLLC were freely available for inspection. Management and other personnel provided full cooperation.

***Representations Requested from Management***

Refer to the management representation letter that we have provided to those charged with governance.

***Other Issues Arising from the Audit that We Consider Significant and Relevant to Those Charged with Governance***

There were no other issues arising from the audit that we consider significant and relevant to those charged with governance.

***Other Material Written Communications with Management***

We have provided to those charged with governance copies of all material written communications that we prepared in connection with our annual audit.

**Internal Control Matters**

We have communicated, in writing, to management and to those charged with governance all significant deficiencies in connection with our audit of the financial statements that we are aware of. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

**Independence**

We are not aware of any circumstances or relationships that would impair our independence.

Should you desire further information concerning these matters, we will be happy to meet with you at your convenience.

This letter is solely for the internal use of those charged with governance and management of the Montague Fire District and should not be distributed to any other persons or used for any other purpose.

Very truly yours,

A handwritten signature in black ink that reads "Pridnia Latnes, LLC". The signature is written in a cursive, flowing style.